

Message Text

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ACTION ARA-20

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 PA-03 PRS-01

USIA-15 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 INT-08 SCEM-02 RSR-01 /152 W

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R 131305Z AUG 73

FM AMCONSUL SAO PAULO

TO SECSTATE WASHDC 4463

INFO AMEMBASSY BRASILIA

AMEMBASSY LA PAZ

AMCONSUL RIO DE JANEIRO

C O N F I D E N T I A L SAO PAULO 1775

E.O. 11652: GDS

TAGS: EFIN, BR

SUBJECT: BOLIVIA-BRAZIL PIPELINE

SUMMARY: US CONSULTANT ENCOURAGED AT PROGRESS ON \$400 MILLION
BOLIVIA-BRAZIL GAS PIPELINE PROJECT. END SUMMARY.

1. MR. RALPH GIBSON, AN AMERICAN, CONSULTANT TO THE SAO PAULO
MUNICIPAL GAS COMPANY (COMGAS) UNDER INTERNATIONAL EXECUTIVE
SERVICE CORP. SPONSORSHIP (AND AN ASSOCIATE OF MR. TOM EVANS
OF THE NY LAW FIRM MUDGE, ROSE, GUTHRIE AND ALEXANDER, WHICH
IS ATTEMPTING TO ARRANGE PRIVATE INTERNATIONAL FINANCING FOR
THE PROJECT) GAVE THE CONSULATE GENERAL TODAY AN ORAL STATUS
REPORT ON SOME ASPECTS OF THE BOLIVIA-BRAZIL GAS PIPELINE PRO-
JECT.

2. ACCORDING TO THE DRAFT OF A SECOND STONE AND WEBSTER REPORT
WHICH HE REVIEWED ON HIS RETURN FROM THE US THIS WEEK, THE
SEGMENT OF THE PIPELINE FROM CORUMBA TO SAO PAULO IS ESTIMATED
TO COST \$298 MILLION AND A FEEDER LINE TO RIO AN ADDITIONAL \$50
MILLION. CONSIDERATION IS BEING GIVEN TO THREE SMALLER LATERAL
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LINES TO A LARGE AMONIA PROJECT (LOCATION UNSPECIFIED), AN IRON

ORE PROJECT IN THE CORUMBA AREA AND A MUNITIONS FACILITY. THE 30-INCH DIAMETER MAIN PIPELINE WOULD CARRY 600 MILLION CUBIC FEET PER DAY. IT IS ESTIMATED THAT CONSUMPTION FOR INDUSTRIAL AND HOUSEHOLD PURPOSES IN THE SAO PAULO AREA WILL BE 250 MILLION CUBIC FEET PER DAY INITIALLY, RISING RAPIDLY TO 300 MILLION CF/D. (THE COMPLETED 20-YEAR CONSUMPTION PROJECTION FOR SAO PAULO IS EXPECTED NEXT MONTH.) THERE IS NO FIRM DATA ON RIO'S CONSUMPTION BUT IT IS ESTIMATED THAT IT WILL REACH THE RANGE OF PERHAPS 150/200 MILLION CF/D. THE THREE INDIVIDUAL PROJECTS ARE EXPECTED TO CONSUME 5 MILLION CF/D EACH. TOTAL UTILIZATION FOR THESE PURPOSES THEREFORE WOULD BE ON THE ORDER OF 415 MILLION CF/D INITIALLY, RISING TO 515 MILLION CF/D IN RELATIVELY SHORT TIME.

3. GIBSON INDICATED THAT EVEN WITH THE HIGH COST OF PIPELINE PROJECT, COST OF BOLIVIAN GAS DELIVERED TO SAO PAULO WOULD BE ONE FIFTH OF THE CURRENT COST OF FUEL, OR FIVE US CENTS PER THERM FOR BOLIVIAN GAS, COMPARED WITH 25 CENTS PER THERM NOW IN SAO PAULO FOR LPG.

4. GIBSON REVEALED THAT SERIOUS CONSIDERATION IS BEING GIVEN TO THE EXTENSION OF THE PIPELINE TO THE SANTOS AREA (COST "UNDER \$10 MILLION") WHERE AN LNG FACILITY WOULD BE CONSTRUCTED FOR EXPORT TO THE UNITED STATES. (GIBSON STATED THAT HE HAD TALKED TO "HIS GOOD FRIEND" HOWARD BOYD, THE PRESIDENT OF EL PASO GAS, WHO IS INVOLVED IN THE HUGE SOVIET AND ALGERIAN LNG PROJECTS AND THAT BOLIVIAN-BRAZILIAN LNG WOULD BE COMPETITIVE IN THE US MARKETS.) HE SAID THE GOB WOULD ALSO TRY TO WORK OUT AN ALTERNATIVE SOURCING FROM THE NIGERIAN GAS FIELDS FOR THE SANTOS LNG PLANT AS A BACKUP IN THE EVENT OF POLITICAL PROBLEMS IN BOLIVIA SHOULD RESULT IN THE SHUTTING OFF NATURAL GAS SUPPLY.

5. GIBSON ALSO SAID THAT PETROBRAS IS BEING "FLOODED" WITH REQUESTS FOR FEEDER PIPELINES TO PROVIDE LOW COST FUEL FOR VARIOUS PET PROJECTS, FOR EXAMPLE CERTAIN STEEL INTERESTS ARE PUSHING FOR A SMALL OFFSHOOT OF THE RIO FEEDER LINE INTO THE "IRON TRIANGLE" AREA OF MINAS GERAIS.

6. WHEN PRESSED AS TO HIS CONFIDENCE THAT BOLIVAIN RESERVES WERE SUFFICIENT TO JUSTIFY THE ENORMOUS OUTLAY ENTAILED IN THE CONFIDENTIAL

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BOLIVIA-BRAZIL GAS PIPELINE PROJECT, GIBSON SMILED AND SAID THE TECHNICIANS THERE TOLD HIM THEIR ACTUAL ESTIMATES WERE HIGHER THAN THE FIGURES COMMONLY USED. HE SAID THE AUTHORITIES WERE PARTICULARLY PLEASED WITH A SECOND MAJOR STRIKE IN THE LAST MONTH OR SO. ROLANDO PRADO, HEAD OF THE BOLIVIAN NATIONAL PETROLEUM COMPANY, HAD CONFIDED TO HIM THAT THE REASON FOR DOWNPLAYING RESERVES WAS THAT BOLIVIA WAS TIED TOO CLOSELY TO ARGENTINA. ARGENTINA WANTED EVER INCREASING AMOUNTS OF NATURAL GAS.

GIBSON COULD NOT REMEMBER PRESENT CAPACITY OF YPT-ARGENTINA PIPELINE BUT SAID PRADO HAD TOLD HIM BOLIVIA WOULD PREFER TO FILL 600 CF/D PIPELINE TO BRAZIL RATHER THAN KEEP PIPELINE TO ARGENTINA FILLED IF BOLIVIA HAD TO CHOOSE.

7. GIBSON ALSO SAID THAT PRELIMINARY SOUNDINGS IN THE US AND EUROPE RE FINANCING FOR THE PIPELINE INDICATED THAT IT WOULD BE MUCH MORE DIFFICULT TO RAISE THE \$25 MILLION REQUIRED FOR THE BOLIVIAN PORTION OF THE PROJECT (SANTA CRUZ TO CARUMBA) THAN THE \$350/\$400 MILLION NEEDED TO FINANCE THE BRAZILIAN PART, (IN WHICH PETROBRAS ITSELF PRESUMABLY WOULD CARRY A HEAVY SHARE FROM ITS OWN FUNDS).

8. OVERALL, GIBSON WAS QUITE PLEASED WITH RECENT DEVELOPMENTS, ALTHOUGH HE SAID THAT "CERTAIN FACTIONS" IN BRAZIL WERE NOT YET FULLY BEHIND THE PROJECT. WHILE THERE MAY BE A LARGE DOSE OF SELF INTEREST IN HIS COMMENTS, HE DOES SEEM CONVINCED THAT THE BRAZILIAN AND BOLIVIAN GOVERNMENTS ARE PRETTY WELL COMMITTED TO THE PROJECT AND THAT IT IS TECHNICALLY FEASIBLE.
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